

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ADJUSTMENT OF THE RATES OF)	
AUXIER ROAD GAS COMPANY, INC., FOR)	CASE NO. 10288
AN INCREASE IN GAS RATES)	

OPINION IN SUPPORT OF ORDER
DATED FEBRUARY 24, 1989

On February 24, 1989, the Commission issued its Order in this proceeding wherein it granted Auxier Road Gas Company, Inc. ("Auxier Road") additional revenues of \$18,950 and authorized rates that would produce annual operating revenues of \$380,015.

The Commission, after consideration of the record and being otherwise sufficiently advised, is of the opinion and finds that the recommendations in the Staff's August 29, 1988 Report should be adopted as the findings of the Commission in this proceeding, subject to the following:

Normalized Revenues

Auxier Road normalized revenues by applying the test-year billings to rates in effect at the time of filing pursuant to Case No. 9318-F.¹ The following schedule reflects normalized revenues at current rates pursuant to the final Order in Case No. 9318-G:²

¹ Case No. 9318-F, The Notice of Purchased Gas Adjustment Filing of Auxier Road Gas Company, Inc.

² Case No. 9318-G, The Notice of Purchased Gas Adjustment Filing of Auxier Road Gas Company, Inc.

	<u>Bills</u>	<u>Mcf</u>	<u>Rates</u>	<u>Revenue</u>
0 - 1 Mcf (Min.)	1,362	4,957	\$8.14	\$ 45,128 ³
Over 1 Mcf	<u>4,182</u>	<u>35,571</u>	<u>\$7.30</u>	<u>259,668</u>
	5,544	40,528		\$304,796
Hospital	9,003 Mcf at		\$6.25	<u>56,269</u>
				<u>\$361,065</u>

Normalized Purchased Gas Expense

Auxier Road normalized gas purchases using its test-year volume multiplied by the rate of its supplier, Columbia Gas of Kentucky, Inc. ("Columbia"), pursuant to Case No. 9318-F. During the test year, Auxier Road purchased gas from three sources: Columbia, Presley Energy ("Presley") and Midwest Investment Company ("Midwest"), although at the time of filing, Auxier Road was no longer able to obtain gas from Presley and Midwest. However, in October 1988 Auxier Road resumed purchasing gas from Presley.⁴ Because Auxier Road purchases from two suppliers, its rates should reflect the average cost of gas based on the supply mix. Normally, the Commission would adjust purchased gas expense to reflect the gas supply mix in a rate case order. However, Auxier Road filed a purchased gas adjustment to be effective March 1, 1989 which is based on purchases from both Columbia and Presley. In addition, Auxier Road has reported overcollections from October 1988 through January 1989 and has been ordered to report overcollections for February 1989 due to its rates not

³ There were 587 bills with zero usage. Therefore, the correct revenue for the rate block "0 - 1 Mcf" is \$8.14 multiplied by (4,957 + 587) = 5,544.

⁴ Transcript ("Tr."), November 9, 1988, page 40.

being adjusted to reflect the gas supply mix purchases from two suppliers.

Since the rates approved in this case are subject to change effective March 1, 1989 due to the filing of the purchased gas adjustment based on Auxier Road's supplier mix, and the reporting of overcollections up to March 1, 1989, gas purchases have been normalized using test-year volumes multiplied by Columbia's rate prior to March 1, 1989 as shown below.

<u>Mcf</u>	<u>Rate</u>	<u>Cost</u>
51,406	\$3.5001	\$179,926

November 3, 1988 Amendments to Staff Report

On November 3, 1988, Staff issued amendments to the Staff Report wherein it increased its recommended expense allowances for Outside Services Employed and American Express Card expenditures by \$1,003 and \$163, respectively. These amendments also increased the working capital provision of rate base by \$146 ($\$1,166 \div 8 = \146). For the reasons set forth in Staff's November 3, 1988 filing, the Commission adopts this amended Staff recommendation.

November 7, 1988 Amendments to Staff Report

On November 7, 1988, Staff amended its recommendations to include the Cliff Line as a component of net investment rate base. This resulted in a net increase to rate base of \$44,240. Consistent with this recommendation, Staff increased its recommended depreciation expense to include \$1,533 of depreciation associated with the Cliff Line. The Commission adopts these amended recommendations for the reasons set forth in Staff's November 7, 1988 filing.

Metering Station

At the January 25, 1989 hearing, Staff amended its recommendations and proposed to increase rate base and depreciation expense by \$15,544 and \$1,036, respectively, to reflect for rate-making purposes a metering station installed by Kentucky West Virginia Gas Company ("Kentucky West").⁵ The Commission agrees with the rationale expressed by Staff that this is an appropriate item to recognize for rate-making purposes; therefore, the Commission adopts this amended Staff proposal.

Rate Case Expense

In its Staff Report, Staff recommended a rate case expense level of \$1,000 amortized over 3 years, or \$333 annually.

Because of the extended proceedings that have subsequently developed, the Commission is of the opinion that a higher level of expense is appropriate and, therefore, does not adopt Staff's recommendation. Auxier Road's November 9, 1988 Hearing Exhibit 15 reflects that Auxier Road's updated rate case expense proposal is \$11,561.

The Commission is of the opinion that Auxier Road should be allowed the full costs of the attorney and consultant; these amounts are \$3,146 and \$3,150, respectively.

With respect to the accountant fees of \$2,999, the Commission is of the opinion that Auxier Road has not adequately justified this expense. Presumably, the consultant, as an "expert," should have been capable of processing virtually any aspect of this

⁵ Tr., January 25, 1989, pages 95-96.

proceeding, leaving little need to incur expense for extra advice and services. However, since the accountant was called upon by Staff during its audit and prepared several documents for submission into the record, the Commission is of the opinion that two-thirds of the claimed expense, or \$2,000, is reasonable for rate-making purposes.

In addition to the legal, accountant, and consultant fees, Auxier Road proposed \$2,265 for "company" expenses. These expenses were associated mostly with charges by Auxier Road's salaried president for meetings with his consultants and attorney to discuss this rate case. The Commission is of the opinion that compensation for such services is a component of the president's salary and inclusion of the proposed charges as a rate case expense is inappropriate. However, the Commission is of the opinion that \$500 for company expenses should be allowed in consideration that costs were incurred for lodging, meals, and other expenses as a result of this case.

Based upon the foregoing, the Commission finds that \$8,796 amortized over 3 years, or \$2,932, is an appropriate provision for rate case expense. Thus, an additional \$2,599 (\$2,932 - 333) above the level recommended by Staff will be allowed for this expense.

Cliff Transmission Line

Based upon testimony of A. F. Humphries, Auxier Road continues to receive gas from Presley.⁶ This portion of Auxier Road's

⁶ Tr., pages 71-72.

supply is provided through the Cliff Line. The Commission is of the opinion that the Cliff Line should be included in Auxier Road's rate base since the Line is clearly in use and Presley has stated it will continue supplying gas to Auxier Road. In order to allow the Commission to monitor the extent to which the Cliff Line remains in use, Auxier Road should file with the Commission quarterly reports of its gas purchases.

REVENUE REQUIREMENTS

Adjusted Operating Income

Based upon the findings discussed herein, following is the Commission's determination of Auxier Road's adjusted operating income:

Operating Revenues:		
Normalized Revenues		\$361,065
Operating Expenses:		
Purchased Gas	\$179,926	
Other Operating Expenses		
Per Staff Report	163,503	
November 3, 1988 Amendments	1,166	
Cliff Line Depreciation	1,533	
Regulatory Station Depreciation	1,036	
Rate Case Expense Amortization	2,599	
Total Operating Expenses		<u>349,763</u>
ADJUSTED OPERATING INCOME		<u>\$ 11,302</u>

Adjusted Rate Base

Based upon the adjustments to the Staff Report, as described herein, following is the Commission's determination of Auxier Road's net investment rate base:

Rate Base per Staff Report	\$343,425
ADD: Cliff Line	50,600
LESS: Cliff Line Accumulated Depreciation	<6,360>
ADD: Meter Station	15,544
ADD: Working Capital Adjustment	<u>146</u>
ADJUSTED RATE BASE	<u>\$403,355</u>

Revenue Requirement

Based upon the foregoing, following is the Commission's determination of Auxier Road's revenue requirement and required increase:

Rate Base	\$403,355
Rate of Return	<u>7.5%</u>
Operating Income Requirement	\$ 30,252
Operating Expenses	<u>349,763</u>
Operating Revenue Requirement	380,015
Normalized Operating Revenues	<u><361,065></u>
REQUIRED INCREASE	<u>\$ 18,950</u>

Revenue Allocation

Based upon the foregoing, Auxier Road's increase is \$18,950 over normalized test-year revenue of \$361,065 for a revenue requirement of \$380,015. The increase has been incorporated into the rate structure as a 47 cent per Mcf increase to the block rate of 0 - 1 Mcf and a 46 cent per Mcf increase to the block rate of all over 1 Mcf. The following rates are applicable:

0 - 1 Mcf (Minimum Bill)	\$8.61 Per Mcf
All Over 1 Mcf	\$7.76 Per Mcf

The above rates, when applied to the billing analysis filed by Auxier Road, should produce the following revenue from gas sales:

0 - 1 Mcf	5,544	x	\$8.61 =	\$ 47,734
All Over 1 Mcf	35,571	x	\$7.76 =	<u>276,031</u>
				\$323,765
Hospital	9,003 Mcf	at	\$6.25 =	<u>56,269</u>
				<u>\$380,034</u>

Future Gas Purchases

However, the Commission notes that the majority of Auxier Road's gas supply is still purchased from Columbia at a rate substantially higher (\$3.5608 per Mcf) than the cost of gas from Presley (\$2.63 per Mcf), based upon Auxier Road's most recent purchased gas adjustment filing.⁷ The Commission further notes that Auxier Road's minimum take requirement from Columbia is 450 Mcf per month, while its total system sales for the test year in this proceeding were 50,118 Mcf. Auxier Road clearly has the potential to increase its purchases from other gas suppliers and still meet its contractual requirements with Columbia. To the extent such additional purchases could be made at a price lower than Columbia's, Auxier Road's customers would realize an even greater benefit from the use of the Cliff Line.

The Commission is of the opinion that Auxier Road should pursue with Presley the possibility of increased gas purchases. In addition to acquiring from Presley copies of the well production tests requested earlier by the Commission, Auxier Road should also determine if Presley plans to drill additional gas wells and whether Presley has more gas available to Auxier Road.

The Commission also is of the opinion that another logical source of cheaper gas for Auxier Road through the Cliff Line would be from Kentucky West. The Commission recognizes that a previous Stipulation and Agreement before the Federal Energy Regulatory Commission ("FERC") in 1984 may prevent Kentucky West from selling

⁷ Case No. 10288-A, The Notice of Purchased Gas Adjustment Filing of Auxier Road Gas Company, Inc.

its tariff gas to Auxier Road.⁸ However, since the natural gas supply picture has continued to evolve throughout the United States and given various actions by the FERC since 1984 relating to open access of pipelines for transportation and supply of gas, Auxier Road (through Kentucky West) may find a more receptive ear at the FERC which would result in Kentucky West making tariff sales to Auxier Road. The Commission recommends that Auxier Road pursue this possibility with Kentucky West.

Based upon the foregoing findings, the Commission ordered reasonable rates and charges for Auxier Road in its Order dated February 24, 1989.

IT IS FURTHER ORDERED that:

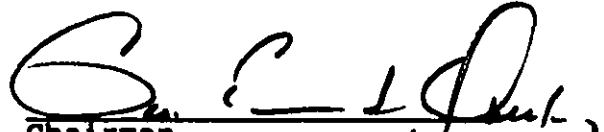
1. Auxier Road shall file with the Commission quarterly reports of its gas purchases. Such reports shall be due no later than 10 days after the end of the preceding quarter and include each supplier of gas, the amount (Mcf) purchased, and the cost (per Mcf).


2. Within 60 days of the date of this Order, Auxier Road shall file a report with the Commission summarizing its efforts to secure additional gas purchases.

⁸ Docket No. CP83-469-000, Kentucky West.

Done at Frankfort, Kentucky, this 29th day of March, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director